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FISCAL IMPACT STATEMENT

LS 7331 | **NOTE PREPARED:** May 4, 2007
BILL NUMBER: HB 1478 | **BILL AMENDED:** Apr 29, 2007

SUBJECT: Taxation.

FIRST AUTHOR: Rep. Kuzman | **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: *Standard Deduction:* This bill provides that in 2008, the standard deduction available for homesteads may not exceed $45,000. It provides that beginning in 2009, the maximum deduction decreases by $1,000 each year until it reaches $40,000.

LOIT for Levy Replacement: This bill authorizes a county to adopt an additional County Adjusted Gross Income Tax (CAGIT) rate or an additional County Option Income Tax (COIT) rate. It provides that the tax rate shall be set by the Department of Local Government Finance (DLGF) at an amount sufficient to raise tax revenue to replace the estimated increase in the following year of certain property tax levies in the county. The bill specifies that the tax rate may not exceed 1% and it provides that in the first year the tax rate is imposed, the tax rate shall be set for each of the following two years. It provides that the tax rate set for the first year must be increased by a specified amount above the amount needed to replace the tax levy growth, and that the excess tax revenue raised in the first year must be deposited in the county stabilization fund.

The bill establishes a county stabilization fund in each county that imposes the additional LOIT rate. It provides that if the certified distributions exceed the estimated replacement amount used to determine the LOIT tax rate, the excess shall be deposited in the county stabilization fund. The bill specifies when money shall be distributed from the county stabilization fund. The bill also provides that the LOIT tax rate may not be reduced or rescinded, but that the rate may be increased each year to replace the property tax levy growth that would otherwise occur in the following year.

LOIT for Public Safety: The bill authorizes a county to impose an additional CAGIT or COIT tax rate for public safety. It specifies the conditions under which a county may impose the additional tax rate for public safety and specifies the maximum additional tax rate. The bill requires this tax revenue to be distributed to the county and municipalities in the county and to be used for public safety purposes.

LOIT for Property Tax Relief: The bill also provides that a county may impose a CAGIT or COIT tax rate of not more than 1% for: (1) property tax replacement credits; (2) an increase in the homestead credit percentage; or (3) property tax replacement credits for qualified residential property.

LOIT Adoption Deadline: The bill provides that ordinances imposing, increasing, decreasing, or rescinding CAGIT, COIT, and the County Economic Development Income Tax (CEDIT) must be adopted after March 31 and before August 1 of a year and that the ordinances take effect October 1 of a year.

Lake County Levy Limit: This bill provides that the assessed value growth quotient for a particular year for civil taxing units in Lake County is zero unless the LOIT tax rate for property tax relief will be in effect at a rate of 1% in Lake County for that calendar year.

Review Boards: This bill abolishes county boards of tax adjustment on December 31, 2008. It establishes a county board of tax and capital projects review (county review board) in each county on January 1, 2009. The bill provides that in counties other than Marion County, a review board consists of members appointed from various fiscal bodies within the county and two individuals elected on a nonpartisan basis and it specifies the membership of the county review board in Marion County. The bill also provides that in those counties that have a county board of tax adjustment, the county review board has the powers and duties held by a county board of tax adjustment before the county board of tax adjustment is abolished.

Levy Appeals: Beginning in 2009, this bill eliminates certain levy appeals for civil taxing units. The bill also provides that the State's Local Government Tax Control Board (Control Board) is abolished December 31, 2008.

Capital Projects: This bill requires the fiscal body of each political subdivision in a county to do the following every two years: (1) Hold a public hearing on a proposed capital projects plan; and (2) adopt a capital projects plan. It requires a capital projects plan to apply to at least the five years immediately following the year the capital projects plan is adopted. It requires a county review board to review and provide a written report concerning each capital projects plan.

The bill provides that a political subdivision may not: (1) begin construction of a capital project; (2) enter into contracts for the construction of a capital project; (3) issue bonds for a capital project; or (4) take certain other actions concerning a capital project unless the county review board approves the capital project. It provides that the approval of the DLGF is not required for the issuance of bonds that has been approved by the county review board.

This bill provides that a capital project must be reviewed by a county review board only if the capital project: (1) is a controlled project for purposes of the petition and remonstrance procedures; and (2) will cost the political subdivision more than $7,000,000. The bill provides that county review board approval is not required for water projects, wastewater projects, highway or road projects, or bridge projects.

School Debt Payments: The bill provides that after May 15, 2007, the DLGF may not approve a school corporation's proposed bond issue that does not provide for payments toward the principal of the bonds on at least an annual basis, lease rental agreement that does not provide for repayments toward the present asset value of the lease at its inception on at least an annual basis, or debt service fund loan to purchase school buses that does not provide for payments toward the principal of the loan on at least an annual basis.

Circuit Breaker: This bill specifies that in 2008 and 2009, the circuit breaker credit for taxes greater than 2% applies to only homestead property (rather than qualified residential property). It specifies that after 2009, the circuit breaker credit for taxes greater than 2% applies to homestead property and that a circuit breaker credit for taxes greater than 3% applies to property other than homestead property. The bill provides that a school corporation's tuition support property tax levy may not be reduced because of a circuit breaker credit. It also provides that a redevelopment commission or the governing body of certain other TIF districts may file with the county auditor a certified statement providing that for purposes of computing and applying the circuit breaker credit, a taxpayer's property tax liability does not include the liability for a tax increment replacement tax.

Circuit Breaker Appeal Board: Additionally, the bill establishes a Circuit Breaker Relief Appeal Board. The bill provides that beginning in 2008, a county or two or more political subdivisions that will have their property tax collections reduced by at least 2% in a year as a result of the application of the circuit breaker credit may petition the board for relief from the application of the circuit breaker credit. The bill requires a petitioning political subdivision to submit a proposed financial plan to the board. It provides that the board may: (1) increase the threshold at which the circuit breaker credit applies to a person's property tax liability; or (2) provide for a uniform percentage reduction to circuit breaker credits otherwise provided in the county; if the governing boards of all political subdivisions in the county agree to that plan.

County Tax: This bill:

A) Allows Parke County to impose an additional CAGIT rate of not more than 0.25% to: (1) fund the costs (including pre-trial costs) of a capital trial that has been moved to another county for trial; and (2) to repay money borrowed for that purpose;
B) Increases the Allen County innkeeper's tax rate to 7%;
C) Authorizes Monroe County to adopt an additional COIT tax rate of not more than 0.25% to fund a juvenile detention center;
D) Raises the cap on the Vanderburgh County innkeepers' tax from 6% to 8%; and
E) Provides that the additional county option income tax rate permitted in Howard County must be adopted in increments of one hundredth percent.

Judicial Salaries Fee: This bill provides that the portion of the judicial salaries fee retained by a city or town shall be prioritized to fund city or town court operations.

Abatements: This bill makes certain changes concerning personal property abatements.

Annexation: This bill creates the Annexation Study Committee.

Effective Date: January 1, 2006 (retroactive); January 1, 2007 (retroactive); May 15, 2007 (retroactive); Upon passage; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Review Boards:* This bill abolishes State's Local Government Tax Control Board on December 31, 2008. The Control Board is comprised of nine members, including seven voting members and two ex-officio members. All members of the control board receive mileage reimbursement and members who are not state employees receive a salary per diem.

Many duties currently assigned to the state's Control Board are transferred to the county board of tax and capital projects review created in this bill.

Circuit Breaker Appeal Board: This provision creates the state Circuit Breaker Relief Appeal Board. The seven members would include:
(1) The Director of the Office of Management and Budget (OMB), or designee. (Serves as chairperson);
(2) The Commissioner of the DLGF, or designee;
(3) The Commissioner of the Department of Revenue, or designee;
(4) The State Examiner of the State Board of Accounts, or designee;
(5) A nominee of the Indiana Association of Cities and Towns, appointed by the Governor;
(6) A nominee of the Association of Indiana Counties, appointed by the Governor; and
(7) A nominee of the Indiana Association of School Superintendents appointed by the Governor;

The members appointed by the governor must be an elected official of apolitical subdivision. Each member is entitled to travel and other actual expenses. The board may contract with accountants, financial experts, and other advisors and consultants as necessary. Funding will come from the DLGF's budget and the DLGF will staff the board. This provision will potentially increase administrative expenses at the DLGF. The additional expense is currently indeterminable.

Annexation: The Committee will have 16 members, and it will operate under Legislative Council policies governing interim study committees. The Legislative Council sets the budget for interim study committees. Authorized expenses of interim study committees are paid from the state General Fund via appropriation to the Legislative Council. Under the most recent Legislative Council Resolution, a committee with at least 16 members received an operating budget of $16,500. The committee expires on November 2, 2007.

Higher Education Tuition and Mandatory Fees: The bill:

1. Requires the Commission for Higher Education to recommend nonbinding tuition and mandatory fee increase targets for each state educational institution to the State Budget Committee.
2. Requires state educational institutions to submit a report to the State Budget Committee concerning the factors considered by the board of trustees in determining the amount of increase in tuition and mandatory fees by the institution.
3. Requires the State Budget Committee to review the targets and the report by the state educational institutions. The educational institution may be requested to appear before the Budget Committee.
4. Deletes the requirement placed in the budget bill that state educational institutions have their tuition and mandatory fees reviewed by the State Budget Committee before June 30, 2007.
5. Deletes the requirement placed in the budget bill that after July 1, 2007 a state educational institution could only have an increase in tuition and mandatory fees greater than the nonbinding target if the increase was reviewed by the Commission for Higher Education and the State Budget Committee.

The impact is unknown and depends on the targets set by the Commission and if increase in tuition and mandatory fees would have been less due to the required review by the Commission and the State Budget Committee.

Explanation of State Revenues: *Aircraft Sales Tax:* This bill amends IC 6-2.5-5-8 as that code section was amended in SEA 500-2007. The provision added in SEA 500-2007 specified that in order to qualify for the Sales Tax exemption for the purchase of an aircraft for the purpose of rental or lease, the purchaser must establish that the revenue derived from leasing the aircraft is equal to or greater than:

(1) 10 % or more of the original cost or book value of the aircraft if the original cost was less than $1 M; or

2) 7.5 % or more of the original cost or book value of the aircraft if the original cost was at least $1 M.

SEA 500-2007 made this amended language effective July 1, 2007. This bill provides that this amended language only applies to transactions occurring after June 30, 2008. Therefore, the impact of the changes in SEA 500-2007 on Sales Tax collections will occur in FY 2009 rather than FY 2008. The overall impact on Sales Tax collections is indeterminable.

Explanation of Local Expenditures: *Review Boards:* This bill replaces the current county boards of tax adjustment (TAB) with county boards of tax and capital projects review (county review board) in each county on January 1, 2009.

Current Tax Adjustment Boards: The seven members of the TAB currently include:
1. One member of the county fiscal body;
2. The executive of the largest city in the county, or, if there is no city, one member of the fiscal body of the largest town;
3. One member of the school board with the greatest AV in the county;
4. Four resident freeholders in the county, appointed by the county commissioners.

The four resident freeholder members of the TAB are entitled to a salary per diem at the same as the rate that the freehold members of the county property tax assessment board of appeals of that county receive.

Counties may, under current law, abolish their TAB. If a county has no TAB, then the tax rates, levies, and budgets are considered approved by the TAB.

County Board of Tax and Capital Projects Review: This bill establishes the County Board of Tax and Capital Projects Review on January 1, 2009. Under this provision, there will be nine members on the board. The board in counties other than Marion will include two county residents elected to the board by county voters.

In counties other than Marion, the members include:
1. One member of the county fiscal body;
2. One member of the fiscal body of the municipality with the greatest AV in the county;
3. One member of the fiscal body of the other remaining cities in the county (or, if there are no cities, of the other remaining towns);
4. One member of the fiscal body of the other remaining towns in the county;
5. One member of the fiscal body of the school with the greatest AV in the county;
6. One member of the fiscal body of one of the other remaining schools in the county, jointly appointed on a rotating basis (or if there is only one school in the county, another member of that school's -fiscal body);
7. Two county residents elected to a four-year term by county voters; and
8. The county auditor.

If there are only two municipalities in the county, then the three members representing cities and towns include two members of the fiscal body of the municipality with the greatest AV in the county and one member of the fiscal body of the other municipality. If only one municipality exists in the county then all three members will come from that municipality.

The two county residents elected to the review board are entitled to a salary per diem at the same as the rate that the freehold members of the county property tax assessment board of appeals of that county receive.

In Marion County, the members include:

1. One individual appointed by the Mayor of Indianapolis (as county executive);
2. One member appointed by the City-County Council (as fiscal body of the City of Indianapolis);
3. One individual appointed by the Mayor of Indianapolis (as executive of the largest municipality in the county);
4. One individual appointed jointly by the mayors and council presidents of the municipalities other than Indianapolis;
5. One individual appointed jointly by the common and town councils of the municipalities other than Indianapolis;
6. The Marion County Auditor;
7. The Indianapolis City Controller;
8. One individual from the board of the largest school corporation in the county; and
9. One municipal fiscal officer appointed jointly by the fiscal officers of all of the municipalities other than Indianapolis.

The county review boards will have all powers and duties currently held by a county boards of tax adjustment. The county review boards will also have some duties previously assigned to the state's Local Government Property Tax Control Board. These duties include setting initial maximum levy limits for new taxing units.

Counties that have abolished their TAB by December 31, 2008, and counties adopt an ordinance by July 2nd of any year would not have tax rates, levies, or budgets reviewed by the review board.

Elected Members of County Review Boards: Each county, except Marion, will elect two county residents to the County Board of Tax and Capital Projects Review. The impact to local expenditures includes placement of the candidates for the newly created elected positions on the local ballot during the general election. The expenditures to adjust the ballots for these offices will be minimal.

The level of compensation for these offices will determine whether county election boards would require additional administrative time to process any report, notice, or other instrument required to be filed by a candidate under Indiana election code. Persons running for an elected office, under which the compensation is less than $5,000, do not have to file candidate paper work including declaration of candidacy and campaign finance reports. The bill allows the compensation for the elected county review board members to equal that of members of county property tax board of appeals (PTBOA). County councils currently fix the rate of per diem for PTBOA members.

Capital Projects: Each civil and school taxing unit must adopt a five-year capital projects plan every two years after holding public hearings on the proposed plan. The plans must cover all controlled projects with a cost exceeding $7 M. The county review board is required to provide a written review of the plan. No action may be taken by the taxing unit on a controlled project without review of the plan.

All controlled projects with a cost of at least $7M are to be reviewed by the board. The board may approve or disapprove a project. The DLGF will not have to approve a debt issue for a project approved by the county review board.

Under this bill, a taxing unit may initiate the petition and remonstrance procedure for approval or disapproval of a project that has been disapproved by the county review board. If the petition prevails, then the taxing unit may undertake the project regardless of the county review board's action.

County Tax: *Allen County Innkeeper's Tax:* The Allen County Capital Improvement Board of Managers currently receives at least 1/6th of the revenue raised by the tax at a 6% rate. The bill proportionately adjusts the amount received by the Board of Managers to 2/7ths of the proposed 7% rate. The Board of Managers' share is currently required to be expended solely for development and promotion of the tourism and convention industry within Allen County. One-sixth of Allen County's FY 2006 Innkeeper's Tax collections would be approximately $550,600. Two-sevenths of the proposed 7% rate provides an additional minimum transfer to the Board of Managers of approximately $565,800 in CY 2008.

Vanderburgh County Innkeeper's Tax: Revenue from the proposed tax increase will be deposited into the County Tourism Capital Improvement Fund (TCIF). Under current law, revenue in the TCIF may be transferred to Vanderburgh County, a city government, a separate body corporate and politic in Vanderburgh County, or any Indiana nonprofit corporation. Revenue from the TCIF must be used for capital improvements for the promotion of conventions, tourism, or recreation within Vanderburgh County. Transfers must be approved by the Vanderburgh County Convention and Visitor Commission.

School Debt Payments: The bill could increase school debt service fund levies in the short term but reduce bonding cost in the long term. Schools would not be able to delay payment of principle on loans. It is unknown how many schools delay payment of principle.

Background: A school might delay the payment of principle to delay the increase debt service fund rate caused by the bond until another bond is retired.

Explanation of Local Revenues: *Homesteads:* Under current law, for taxes payable in 2008 and later, homeowners may claim a homestead standard deduction equal to $35,000 or ½ of the property's assessed value, whichever is less. The deduction was equal to $45,000 or up to ½ of AV for taxes payable in only one year, CY 2007.

Under this bill, the deduction amount is increased to $45,000 for taxes payable in 2008. Beginning in 2009, the deduction amount will decline by $1,000 per year until the deduction reaches $40,000 for taxes payable in 2013. At all deduction levels, each taxpayer's deduction amount cannot exceed ½ of the homestead's AV.

The total standard deduction for taxes payable in CY 2008 through CY 2010 is currently estimated at $51 B AV in each year. This provision will increase the total standard deduction by an estimated $11.0 B in CY 2008, $10.3 B in CY 2009, and $9.5 B in CY 2010. The increased deduction will shift part of the property tax burden from homeowners to all other property through an increased tax rate, beginning in 2008.

LOIT for Levy Replacement: Under this provision, each county may elect to fund the allowable increase in the maximum levies (operating growth) for all civil units in the county from LOIT instead of property tax. The decision would be made by the current LOIT authority in the county (The county council for CAGIT and the county income tax council for COIT).

If a county imposes a LOIT for levy replacement, it must impose a LOIT tax rate that will generate the civil unit operating levy growth amount. The rate is rounded up to the nearest 0.1%. In the initial adoption year, the rate is doubled (or increased by 50% in Marion County), with the excess tax proceeds deposited in the county stabilization fund. The initial election to fund operating growth from LOIT is a two year election.

After the first two years, the county may make an annual election. The LOIT tax rate for levy replacement may not be reduced or rescinded, but may be increased each year.

LOIT proceeds that exceed the levy replacement amount will be deposited into the county stabilization fund established under this provision. Money in the stabilization fund could be distributed to the taxing units in the county in a year when the certified LOIT distributions are less than the calculated levy growth amount for the year.

The cumulative total statewide civil unit operating levy growth amount is estimated at $136 M in CY 2008, $286 M in CY 2009, and $453 M in CY 2010. If all counties impose a LOIT rate for operating growth in 2008, 2009, and 2010, property tax levies would be reduced by these amounts and an estimated total of $310 M would be deposited into county stabilization funds.

The average statewide LOIT for levy replacement rate for CY 2008 is estimated at 0.26%, with a range of 0.1% to 0.6%. This rate would generate an estimated $136 M in operating growth PLUS $177 M in stabilization fund deposits.

The average statewide LOIT for levy replacement rate for CY 2009 is estimated at 0.28%, with a range of 0.1% to 0.6%. This rate would generate an estimated $286 M in operating growth PLUS $61 M in stabilization fund deposits.

The average statewide LOIT for Levy Replacement rate for CY 2010 is estimated at 0.41%, with a range of 0.2% to 0.9%. This rate would generate an estimated $453 M in operating growth PLUS $73 M in stabilization fund deposits.

LOIT distributions to replace operating levies would be considered property tax levies for purposes of distributing other revenues on a pro-rata levy base.

LOIT for Tax Relief: Under this bill, counties may impose a CAGIT or COIT tax rate of up to 1% to provide any combination of (1) property tax replacement credits for all property, (2) property tax replacement credits for residential property, and (3) homestead credits. This rate must be imposed in increments of 0.05%. A 1% LOIT rate in all counties would generate an estimated $1,220 M in CY 2008, $1,247 M in CY 2009, and $1,276 M in CY 2010.

LOIT for Public Safety: Under this bill, a county that imposes both a LOIT for levy replacement and a LOIT rate for tax relief may also impose a CAGIT or COIT tax rate of up to 0.25% for public safety. The rate may not exceed the LOIT rate imposed in the county for tax relief. Marion County may impose a COIT tax rate up to 0.5% for public safety, regardless of whether a COIT rate for tax relief is imposed. However, Marion County still must impose the COIT for levy replacement before imposing the public safety COIT rate. A 0.25% LOIT rate (0.5% in Marion County) for public safety in each county would raise an estimated $349 M in CY 2008, $356 M in CY 2009, and $364 M in CY 2010 if all counties were to adopt. The revenue would be distributed to the county taxing unit and municipalities using the county's normal LOIT distribution basis.

LOIT SUMMARY: If all counties adopt the full additional LOIT rates available under this bill, the total additional LOIT revenue that may be generated is estimated at $1.88 B in CY 2008, $1.95 B in CY 2009, and $2.16 B in 2010. Of these amounts, $1.35 B in CY 2008, $1.53 B in CY 2009, and $1.73 B in 2010 would go directly to levy replacement and tax relief in the year generated. An additional $177 M from CY 2008,

$61 M from CY 2009, and $73 M from 2010 would be available in the county stabilization fund to reduce levies in any year when the LOIT for levy replacement distributions are less than the levy growth amount for that year. The maximum average additional LOIT rate under this bill is estimated at 1.54% in CY 2008, 1.56% in CY 2009, and 1.70% M in CY 2010.

Lake County Levy Limit: Under this bill, the annual increase in the maximum permissible levy for civil taxing unit operating funds in Lake County will be reduced to zero if the county does not implement the LOIT for tax relief at a rate of 1%. The increase in Lake County civil unit maximum levies is estimated at $17.6 M in 2008.

LOIT Adoption Deadline: Under current law, a county may impose, increase, decrease, or rescind CAGIT, COIT, or CEDIT by ordinance if adopted from January 2nd through March 31st, inclusive, of a year. The tax rate change takes effect on July 1st of that year and the county begins receiving proceeds based on the new rate in the next calendar year.

Under this bill the county may adopt the ordinance from April 1st through July 31st, inclusive. The tax rate change takes effect on October 1st of that year. The county will still begin receiving proceeds based on the new rate in the next calendar year.

Levy Appeals: Under current law, there are several different appeals available for civil taxing units. If a civil unit qualifies for one of the appeals, the unit may petition the DLGF for relief. The DLGF currently forwards that petition to the State's Local Government Tax Control Board for consideration. The DLGF then adopts, rejects, or adopts in part, the Control Board's recommendation.

Beginning in 2010, the DLGF will forward the petitions to the county review boards created under this bill. This bill also eliminates the several appeals and replaces them with a broad appeal that would allow a unit to petition for an increase in its maximum levy if the unit cannot carry out its governmental functions within the current limit. This provision may result in an increase in the number of levy appeals.

Circuit Breaker: ***NOTE: The following analysis of the circuit breaker credit is subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. This analysis was based on actual Pay 2007 gross AV from 41 counties and actual 2007 tax rates from 21 counties. The actual credits will differ from these estimates.***

Both the current law and proposed credits reduce local property tax revenue. The credits as defined under this bill will result in a smaller revenue reduction than the credits under current law. This local revenue increase is estimated at $158 M in CY 2008, $153 M in CY 2009, and $475 M in CY 2010.

Under current law, counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies to (1) All forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties, beginning with taxes payable in 2008; and (2) all other real and personal property, beginning with taxes payable in 2010.

Under this bill, the circuit breaker credit will apply only to homesteads (rather than to all residential property) in 2008 and 2009, and will apply to all other real and personal property beginning in 2010. The AV threshold remains at 2% for homestead property, but is increased to 3% for all other property.

Also, under the bill, the credit will be reduced by the portion of the credit that would be allocated to the school general fund, based on net tax liability for the fund. The remaining credit amount will be allocated to all taxing units and funds, except for the school general fund.

In addition, the bill allows redevelopment commission or the TIF governing bodies to exclude TIF replacement levies from the computation and application of the circuit breaker credit. (TIF replacement levies are imposed in areas where previous legislation has reduced tax rates to the extent that TIF proceeds based on those rates are insufficient to make debt payments on previous obligations.)

Under this provision and with consideration of other changes made in this bill and in HEA 1001-2007, the total cost of the credit is estimated at $4.4 M in CY 2008, $9.5 M in CY 2009, and $100.6 M in CY 2010. The credit will affect an estimated 722 taxing units in 62 counties when fully implemented in 2010. An estimated 88.3% of the credits will be paid in two counties. The credits will be minimal in those 60 remaining counties with credits. There are a total of about 2,400 taxing units in the 92 counties. The actual fiscal impact depends on local action as it pertains to additional county options for levy reduction and funding other local credits.

By comparison, the cost of the credit without the provisions in this bill and HEA 1001 is estimated at $162 M in CY 2008 and in CY 2009, and $575 M in CY 2010. That credit would have affected an estimated 1,384 taxing units in 81 counties when fully implemented in 2010.

Circuit Breaker Appeal Board: A county that contains a taxing unit that loses at least 2% of property tax revenue in a year to the circuit breaker (distressed unit), or a group of at least two distressed units on their own, may petition the board for relief. The county or the group of distressed units may submit a financial plan to the board. If the all of the taxing units in the county agree to a financial plan, the board may (1) increase the AV threshold; or (2) reduce the credits in the county by a uniform percentage. A reduction in credits will increase local revenues and increase net tax bills. The impact depends on local action.

County Tax: Allen County Innkeeper's Tax: Raising the Allen County Innkeeper's Tax rate from 6% to 7% is estimated to generate an additional $228,900 in CY 2007, $565,800 in CY 2008, and $582,800 in CY 2009. The estimates do not consider the price elasticity of demand for hotel accommodations in Allen County. As described above in *Explanation of Local Expenditures*, the rate increase will be accompanied by an approximate proportional increase in the amount of revenue transferred to the Allen County Capital Improvement Board of Managers.

Vanderburgh County Innkeeper's Tax: The proposed 2% rate increase will raise approximately $362,500 in CY 2007, $914,200 in CY 2008, and $957,200 in CY 2009. All revenue generated by the 2% rate increase will be deposited into the County Tourism Capital Improvement Fund (TCIF). In order to maintain current revenue distributions to the County Convention & Visitor Promotion Fund and the County Convention Center Operating Fund, the Vanderburgh County Council would have to increase the Innkeeper's Tax from 6% to 8%. In order to fulfill the additional distribution to the TCIF without affecting distributions to the other funds, the innkeeper's tax rate increase would have to occur shortly after the effective date of the bill to assure the TCIF would receive the additional revenue from a 2% rate increase.

Monroe County COIT: Under this provision, Monroe County may adopt an additional COIT tax rate of up to 0.25% to fund the operation and maintenance of a juvenile detention center. In order to impose the additional COIT rate, the county must agree to freeze the part of the county property tax levy that is currently used for the operation of the facility. The county must pass an ordinance imposing the additional rate by May 31, 2007, in order for the county to start receiving the additional revenue in CY 2008. Assuming that Monroe County adopts the full 0.25% additional COIT rate by May 31, 2007, the additional COIT revenue is estimated at $5.6 M in CY 2008, $5.7 M in CY 2009, and $5.7 M in CY 2010.

Parke County CAGIT: Under this provision, Parke County may adopt an additional CAGIT tax rate of up to 0.25% to fund the costs, including repayment of debt, of a capital trial. Assuming that Parke County adopts the full 0.25% additional CAGIT rate in 2007, the additional CAGIT revenue is estimated at $573,000 in CY 2008, $583,000 in CY 2009, and $593,000 in CY 2010.

Abatements: Under current law, new or used manufacturing, research and development, and logistic equipment may qualify for property tax abatements. The property, whether new or used, must be acquired in an arms length transaction from an unrelated seller. Under this bill, only property previously used in Indiana will be subject to the arms length sale rule. New or used property that has never been used in Indiana may be acquired in any manner and qualify for an abatement. The impact of this provision on the total number and value of abatements in Indiana is not known.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue; State Board of Accounts; State Budget Agency; State Budget Committee; Commission for Higher Education; Universities.

Local Agencies Affected: All civil taxing units and school corporations; County assessors; Township assessors; County auditors; Allen County; Monroe County; Parke County; Vanderburgh County.

Information Sources: LSA parcel-level property tax database; Local Government Database; OFMA Income Tax databases.

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